Canadian Crude Separators Inc.

98

ANNUAL REPORT

CCS

1998 Corporate Profile

Canadian Crude Separators Inc. (CCS) is one of western Canada's leading oilfield service companies operating two distinct divisions: the Treatment and Disposal division and the Concord Well Servicing division.

The Treatment and Disposal division, through 15 licensed oil treatment and waste facilities geographically diversified in light oil and heavy oil areas, provides oilfield services to a widely diversified client base. The Concord Well Servicing division has a fleet of 19 well service rigs operating throughout northwestern Alberta and northeastern British Columbia, in predominantly light oil and natural gas producing areas.

CCS operates two separate divisions, the Treatment and Disposal division (below, left) and the Concord Well Servicing division (below, right).

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CCS' vision is to be the industry leader in providing customer-oriented oilfield solutions to the energy industry. During 1998 we recorded strong financial results, outpacing our competitors with strong returns to shareholders. The company is well positioned in several geographic areas and is poised to continue its strong operations into the future.

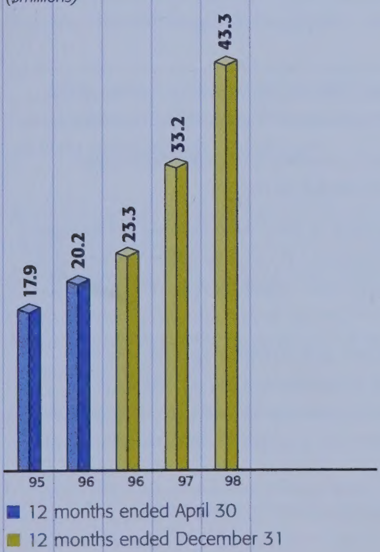
CCS' head office is in Calgary, Alberta and trades on the Toronto Stock Exchange under the symbol CCR.

FINANCIAL HIGHLIGHTS

12 months ended December 31 ($000s except per share amounts)	1998	1997	Change %
Revenue	43,316	33,162	31
EBITDA	12,884	9,408	37
per share	1.04	1.04	–
Cash flow from operations	10,238	7,852	30
per share	0.83	0.86	(3)
Net income before gain on sale of assets	4,284	3,046	41
per share	0.35	0.34	3
Net income	4,311	4,159	4
per share	0.35	0.46	(24)
Capital expenditures	16,914	21,161	(20)
Long-term debt	11,500	6,947	66
Shareholders' equity	37,018	30,584	21
Average number of common shares outstanding	12,379,917	9,081,669	36
Total number of common shares outstanding	13,359,347	9,531,406	40

Revenue

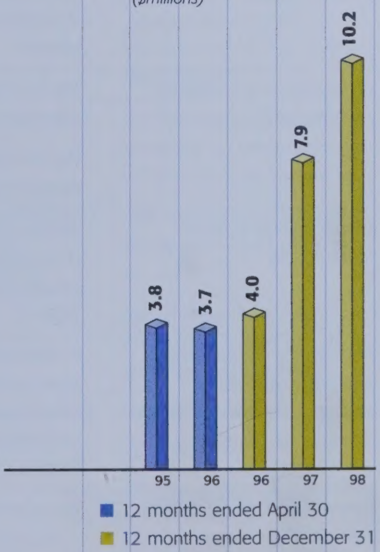
($millions)



CCS recorded a 31 percent increase in revenue during 1998, reflecting the success of the company's growth plans.

Cash Flow from Operations

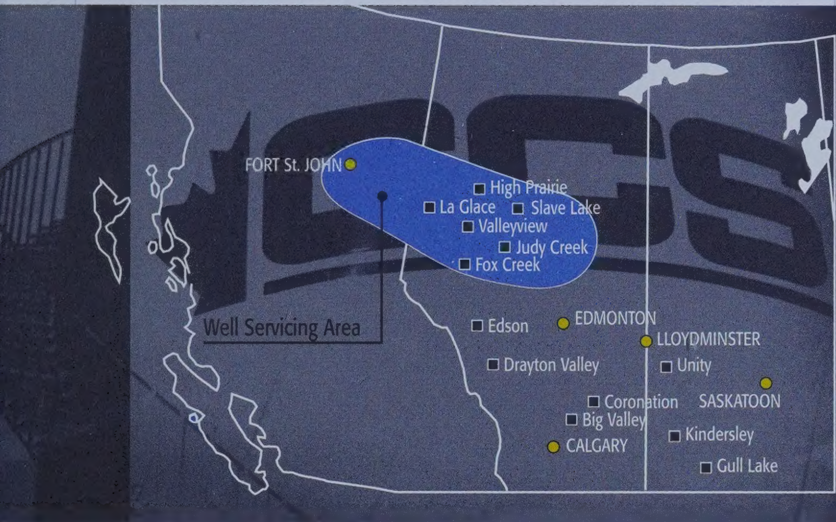
($millions)



Strategic expansion into attractive new market areas and optimization of existing facilities fuelled a 30 percent rise in cash flow from operations.

Strategies For Growth

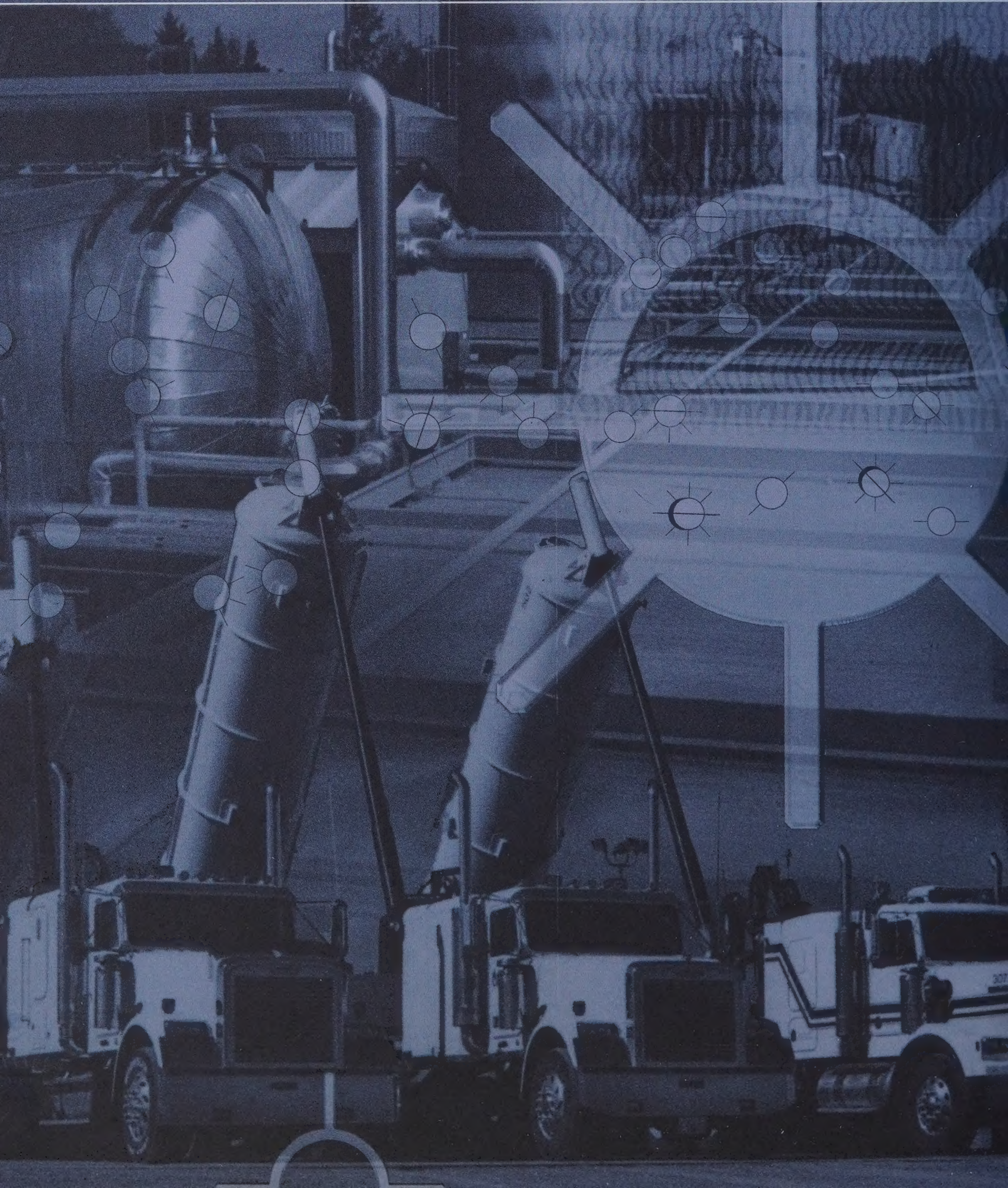
WHAT WE SAID	WHAT WE DID
Expand market share in Western Canadian Sedimentary Basin	In October 1998 we increased our market share through the acquisition of two waste treatment plants located near Edson and Brazeau, Alberta. These plants provide CCS with a strategic presence in one of the largest areas of oilfield activity in Canada. In management's opinion, our Treatment and Disposal division has experienced growth in market share to 33 percent in 1998 from 22 percent in 1997, and Concord's market share grew in the areas surrounding our operational bases as a result of our acquisition of an additional seven service rigs in November 1997. We built the Fox Creek Landfill, which has rounded out the services that we provide our customers in the area, in addition to increasing the efficiency of our internal operations. Our service rig division has continued to develop operational bases within communities, which strengthens ties to producers and leads to an increase in market share. At all levels of our organization we increased market share by continually enhancing our relationships with existing customers and by procuring new customers through the provision of superior service.
Increase Concord's focus on natural gas activity in areas of operation and continue to develop this market	Natural gas activity has increased substantially in our operating area, and now results in 70 percent of our rig hours being devoted to gas wells. Natural gas drilling and production is expected to continue to increase as pipeline capacity expands, while regular oilfield production and workovers remain slow.
Planned capital spending of $20 million in 1998	Capital spending in 1998 amounted to $16.9 million. We acquired two waste treatment plants, constructed a new rig maintenance facility near Edmonton and built a new landfill at Fox Creek. We also improved and optimized our existing facilities through a capital spending program designed to deliver high returns.
Construction of service and maintenance facility for well servicing division	In October 1998 our new multi-purpose maintenance facility opened in Acheson Industrial Park near Edmonton. This 15,000 square foot facility allows us to realize substantial cost efficiencies by performing our own rebuilding, re-manufacturing, and fabrication of well service equipment. The facility is situated on a three acre site where there is ample room for rigup and storage activities.
Construction of a new landfill near Fox Creek	The Fox Creek Landfill began operations in September 1998 and has allowed us to better service one of our core areas and increase the overall efficiency of our northwestern Alberta operations. The Fox Creek Landfill enhanced our customer service by providing a safe, cost-effective, and environmentally-sound alternative for waste and contaminated soil disposal.
Expand capacity of cavern facility at Unity	With the experience gained from operating the Unity facility in 1998, we determined that the capacity of the cavern significantly exceeded our initial expectations and that it will be sufficient to support our operations well into the next millennium. We do not anticipate a need to expand the facility until after 2000.
Dedicate financial and human resources to identify and evaluate innovative technologies	In 1998 we continued our commitment to evaluate and qualify innovative equipment for use in waste handling and processing. Technology qualified and incorporated into our operations included: a system for receiving waste safer and faster; equipment for continuous solids removal from tank bottoms; vapour containment to reduce emissions; and a process for effectively removing dangerous contaminants from solid waste.
Generate earnings per share of $0.45 in 1998	We recorded earnings per share of $0.35 in 1998 due to a slowdown in the industry.
Maintain a minimum 20 percent annual growth in net income	Our net income increased by more than 436 percent between 1996 and 1998 (with 1996 results annualized for 12 months of operations), from a net income of $659,227 for the eight months ended December 31, 1996 to a net income of $4,311,464 for the twelve months ended December 31, 1998.
Show consistent improvements in operating margin, cash flow and debt ratios	Between 1996 and 1998, we recorded a 244 percent increase in operating margins and a 245 percent increase in cash flow, and we decreased our debt to cash flow ratio from 2.41 to 1.12 (all 1996 results were annualized to reflect 12 months of operations).



Our operations are located in three of Canada's western provinces in the heart of the Western Canadian Sedimentary Basin.

IN THE FUTURE WE WILL	**MEASURES OF SUCCESS**
Continue to strive for higher levels of ongoing customer satisfaction by providing cost-efficient and effective treatment and disposal of upstream oilfield waste. We will build on already strong relationships and forge new ones as we optimize our operations.	*We will measure our success through customer satisfaction surveys and the number of customers we engage in long-term contracts.*
Improve our division productivity, efficiency and performance through initiatives designed to optimize the use of our existing facilities and equipment.	*We will measure our success by comparing our actual operating margin to budgeted objectives.*
Pursue opportunities for growth that are congruent with our strategic plan, primarily within the Western Canadian Sedimentary Basin. This provides CCS with considerable expansion potential through emulsion treatment, waste treatment, deep well disposal, landfill disposal and salt cavern disposal.	*We will measure our success by our return on capital employed.*
Continue to enhance the CCS culture and thereby make CCS an even better place to work. We will provide opportunities for internal growth and advancement while working to maintain a flat, customer-driven organization.	*We will measure our success by monitoring employee turnover as a percent of permanent staff.*
Continue to provide attractive returns to our shareholders through the execution of our strategic planning initiatives.	*We will measure our success by our share price to earnings ratio, our return on capital employed and our earnings per share.*
Continue to dedicate financial and human resources to identify and evaluate innovative technologies to maintain our position as a leading supplier of effective and economic solutions for treating and disposing of wastes.	*We will measure our success by analyzing and looking for improvements in our operating margins as a percent of revenue.*

CCS rose to the challenges of 1998, a year that may prove to be one of the most challenging periods in recent history for the energy industry. Despite low oil prices and reduced drilling activity, the company recorded double-digit increases in revenue and cash flow.



Message to Shareholders

Fellow Shareholders,

Despite weak market conditions for the oilfield services industry in 1998, Canadian Crude Separators Inc. rose to the challenge and had a very successful year. CCS achieved strong financial results in 1998, remarkably improving operating results in a year that presented significant challenges to the oilfield services industry.

The Year in Review

Revenue increased to $43.3 million in 1998 from $33.2 million in 1997, a 31 percent gain. Net income before gain on sale of assets increased by 41 percent during the year to $4.3 million from $3.0 million in 1997. These improved results occurred due to the company's strategic expansion into attractive market areas, carefully managed growth and optimization of operations to maintain strong returns.

A number of facilities added in 1997 experienced their first full year of operations in 1998, and several new facilities were added in 1998. The cavern waste disposal facility at Unity, Saskatchewan began operations in October 1997, and experienced a full year of flourishing operations in 1998. As well, the Fox Creek, Alberta crude oil treatment and oilfield waste processing plant, which was completed in September 1997, operated successfully for all of 1998.

Our improved 1998 results were a direct result of the successful integration of new facilities and the ongoing efficiency improvements we have implemented throughout both our operating divisions.

David P. Werklund
President, Chairman of the Board and Chief Executive Officer

Our well servicing division added seven service rigs in November 1997 and benefited in 1998 by merging these rigs with our existing operations, achieving economies and having a full year of operations on these seven rigs in 1998. In the second quarter of 1998, CCS started operations at our Slave Lake, Alberta landfill site and in September 1998 commenced operations at our Fox Creek landfill site. As well, on October 1, 1998 we acquired two new crude oil treatment and oilfield waste processing plants in Alberta, one at Brazeau/Elk River and the other at Edson. These two new facilities were acquired as an asset purchase from Caprice Holdings Ltd. They contributed to our improved 1998 results and will continue to enhance our operations in 1999 and beyond.

In addition to adding new facilities, CCS achieved improved operating results in 1998 due to the talent and dedication of our employees. We continually sought out and implemented work process improvements throughout the year within all of our operations, and we will continue to do so in 1999 and future years. Our customers are focused on both competitive prices and superior service, and we will continue to deliver both of these by improving our operations at all of our facilities.

Financial Strength

CCS raised $16 million in a special warrants issue in December 1997. Combined with conservative cash management throughout the year, this strengthened our balance sheet and enabled us to complete the year with long-term debt of $11.5 million, which was a conservative 1.12 times cash flow from operations for the year.

EBITDA
($millions)

Growth in earnings before interest, taxes, depreciation and amortization, including future site restoration (EBITDA) outpaced growth in revenue and cash flow in 1998, reflecting the company's improving profitability.

On February 26, 1998 we began trading on the Toronto Stock Exchange, which was a reflection of the growth and maturity of the company. This began to improve the trading opportunities for CCS' stock and will be a benefit to us in 1999 and for many years into the future.

Strategy

CCS' vision is to be the industry leader in providing customer-oriented oilfield solutions to the energy industry. During 1998 we reviewed our strategic plan and determined our strategy through 2003. We recommitted ourselves to continuing with the highest safety and environmental standards, and ensuring CCS is a provider of safe, environmentally-responsible energy services. We will also focus on the disciplined management of the business to ensure we can provide cost-effective solutions to our customers in conjunction with providing superior customer service.

In the Treatment and Disposal division of our company, we agreed our competitive strategy is *Total Cost Leadership*. Our strategic initiatives will be to:

- Move to a dominant position in the Western Canadian Sedimentary Basin
- Improve the business development cycle and related capital allocation mechanisms
- Develop plans and programs to provide for succession and career development
- Investigate and implement actions to improve shareholder value and maintain attractive levels of financial performance
- Improve processes and productivity throughout our business

The competitive strategy for the Concord Well Servicing division is *Focus and Differentiate* and our strategic initiatives are to:

- Maintain the division's competitive advantage and financial performance
- Manage its total cost structure down to maintain profit margins
- Seek controlled growth
- Develop plans and programs to provide for succession and career development

Despite weak industry conditions, CCS will continue to strategically add new facilities and operations on a selective basis where we have a strong competitive advantage and where synergies exist with our present operations. We are confident these synergies, in conjunction with economies of scale, will allow us to increase the scope of our operations and improve the profitability of our company.

Principles and Values

Our principles and values are the foundation from which we are building on the success of our organization. It is my responsibility to champion this process through sound leadership to continually enhance the corporate culture and the level of trust within our organization. I have developed, and am continually refining, a culture that promotes employee empowerment and input into all aspects of our operations. The leadership displayed by our management has contributed enormously to the success of our company.

Our high level of employee empowerment has resulted in our employees taking a sense of ownership in all of their responsibilities and assuming a quality attitude in everything they do. Our employees have learned from these experiences and have translated them into action.

This has resulted in many work process improvements being driven from all levels of the company. Our pay for performance philosophy in our compensation programs reinforces this high level of productivity and results-oriented actions, which rewards these improvements.

Leadership at CCS consists of energizing our employees and assisting them in realizing their full potential. Our employees have a high level of trust towards all stakeholders and this translates into a passion for quality and excellence. This willingness to listen to new ideas and to put them into action improves the self-confidence and energy level of all our employees. Several of our work process improvements are the direct result of this positive attitude.

All of our facilities are regularly reviewed for progress in meeting established and agreed-upon goals for customer service, safety and operational effectiveness. This establishes benchmarks that improve the accountability and responsibility of our employees. Customer service and satisfaction is a critical factor in assessing how well we have performed, as satisfied customers translate directly into a successful corporation. The safety and well-being of all of our employees is the highest priority in everything we do as an organization. As well, we strongly believe we must adhere to the highest levels of safe, responsible practices to continue to build upon our success.

Industry Overview

The Canadian energy services industry experienced declining returns in 1998, which was a sharp contrast to the record levels of activity in 1997. The price of crude oil declined throughout the year, which resulted in a 40 percent decrease in drilling activity and lower returns for oilfield services companies. The price of heavy oil was particularly unattractive, and this resulted in activity levels for heavy oil declining more than for light crude oil. However, natural gas activity was steady throughout the year as prices remained strong.

Divisional Overview

Our Treatment and Disposal facilities are more dependent on the levels of production than drilling which helps insulate our company from industry downturns. Our facilities are geographically diversified across producing areas in Alberta and Saskatchewan, which helps insulate us from downturns in specific industry segments.

Our Concord Well Servicing division is located in northwestern Alberta and northeastern British Columbia, which are light crude oil and natural gas producing areas. Concord is therefore not impacted by the downturn in heavy crude oil activity. As well, Concord provides a number of different contract oilfield services to our customers, which include well completions, workovers, and swabbing and abandonments. In 1998, this division's emphasis changed to focus more on natural gas completions, workovers, swabbing and abandonment activities, and less on completion activities for light crude oil wells. Concord, through the location of its field office in Valleyview, Alberta, is a locally centered company that benefits from a local presence and also from a reputation as a provider of superior service, which is well known throughout our operating areas.

Our People

CCS is building a solid reputation through our foundation of principles and values that builds trust among our shareholders, clients and employees. Our employees are trained to fulfill their responsibilities in a way that builds their self-esteem, creates value, develops their leadership skills

and raises their confidence level. This leads them to make more educated, qualified and experienced decisions that creates a highly efficient and empowered organization.

The success of CCS is directly attributable to the talents, dedication and enthusiasm of our 294 employees. Our organization is proactive and reacts quickly to changes in market conditions by employing a very flat, non-hierarchical structure. Our people believe in quality and timely decisions based on carefully selected strategic planning. This philosophy becomes a win-win for our shareholders, customers and each and every employee. When looking at prospective employees we strive to identify those with both cognitive and emotional competencies; those who not only possess the technical skills we require but also the ability to be a team player, show empathy, have self confidence and leadership potential. We believe these capabilities are congruent with the needs of our organization.

We have many employees with greater than 10 years of service at CCS and many that have previously worked in other oil and gas service companies or oil and gas exploration and production companies. This broad range of diversity and oil and gas sector experience has enriched our outlook and enabled us to draw upon the strengths and backgrounds of all of our employees. This has contributed to our success and helped us understand the broader scope of the business environment we function in.

The CCS Management Team

In June 1998, Mr. Alec McDougall, President and Chief Operating Officer, left the company. As a result, I have resumed the responsibility of President and remain Chief Executive Officer and Chairman of the Board. Bob German, Vice President Finance and Chief Financial Officer, also left the company in July 1998 to pursue other opportunities.

We were pleased to announce the addition of Robert Dodds as Executive Vice President and Chief Operating Officer. Mr. Dodds' leadership experience brings a proven track record of professional management, business development, planning and project management and he was instrumental in developing the company's strategic plan. In addition, we welcomed Murray Montgomery as Vice President, Finance and Chief Financial Officer in August 1998. Mr. Montgomery assumed the management responsibility for overseeing the company's financial operations. Both Mr. Dodds and Mr. Montgomery have extensive oil and gas service sector experience and are a welcome addition to the management team.

Outlook

CCS had a very successful 1998, particularly considering it was a weak year for the oil services industry. CCS added a number of assets in 1997 and 1998 which improved operating results, but these additions were done within our financial capabilities. This has resulted in an ongoing strong financial position for 1999 and future years.

Our five-year strategic plan through to 2003, which was developed in 1998, has identified that CCS will continue to grow and expand operations in areas where we see geographic strength and synergies within our existing operations. However, we will be expanding on a basis that will allow us to grow within our means and without overextending our financial capabilities. The financial strength of CCS will allow us to expand into areas or acquire assets on a more cost-effective basis than has been available in the past and to strengthen our operations with this low-cost growth.

The oilfield services sector is currently in a low commodity price environment. As long as this continues, all companies will have to plan for and live in the current pricing environment. CCS is well positioned to thrive in this environment with our strong efficient operations, diversification within market segments (treatment and disposal, well servicing), and geographic diversification which provides exposure to different producing areas with varying levels of light oil, heavy oil and natural gas production.

The natural gas market is expected to strengthen as new pipeline capacity comes on stream, and crude oil prices will be improving in the future. The consensus is clear that there will be a recovery from the current pricing environment, although there are varying estimates as to when this will occur. When market conditions do improve for crude oil and natural gas producing operations, CCS will be very well positioned to reap the benefits of this market upswing. Our solid base of diversified operations combined with our strong financial position will allow the company to prosper and grow well into the future.

In conclusion, I would like to thank each and every one of our employees for the outstanding contributions they have made to the success of our company. I would also like to express my appreciation to our shareholders for their continued support. We look forward to our future challenges and opportunities as we continue to grow and prosper as a company.

On behalf of the Board of Directors,

David P. Werklund
President, Chairman of the Board and Chief Executive Officer

March 10, 1999

CCS' divisions operate in different markets but offer highly complementary services to the company's clients. The Treatment and Disposal division is focused primarily on light oil activities, while the Concord Well Servicing division derives the majority of its revenue from natural gas activities. This provides CCS with exposure to both markets and minimizes business risks through geographic diversification.

Review Of Operations

Treatment and Disposal Division

The Treatment and Disposal division specializes in the treatment and disposal of crude oil, production fluids and related solids on behalf of our customers. Our services offer oil companies a safe, cost-effective, and environmentally sound alternative to operating their own treating facilities. We offer diverse waste treatment and disposal services for the entire western Canadian oil industry. Our 12 facilities in Alberta and 3 in Saskatchewan are located in prime oil and gas producing areas. In effect, we manage our clients' waste streams which allows them to concentrate on finding and producing oil and gas.

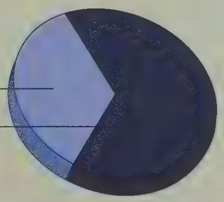
Emulsion Treatment

CCS uses an emulsion treatment process at 10 of its 15 facilities. Oil is received from the waste processing plants (recovered oil) or directly from customers, processed further and shipped to market by pipeline on behalf of customers. The emulsion treatment process offers a cost-effective means for oil producers to move production from the well into the pipeline.

1998 Market Share
(Oilfield Treatment and Disposal Sector)

33% CCS Treatment and Disposal

67% Other



CCS continues to increase market share in our core areas of operation, extending from northwestern Alberta into southwestern Saskatchewan. In management's opinion, our market share increased to 33 percent in 1998 from 22 percent in 1997.

Deep Well Disposal

CCS offers deep well disposal at 13 of our 15 facilities. Waste fluids are received from the company's waste processing plants or directly from customers and injected into disposal wells. The wells are licensed to receive a wide variety of oilfield and industrial wastes.

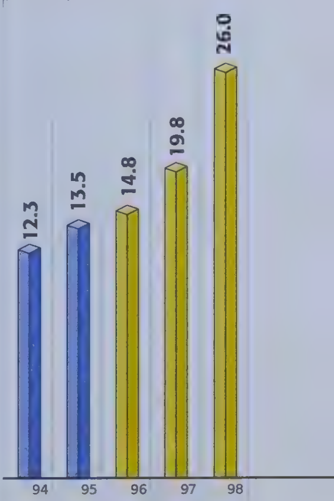
Waste Processing

CCS provides waste processing services at 12 of our 15 Treatment and Disposal sites. Waste products containing a combination of oil, water and solids are received and treated with heat and chemical additives. The process separates the waste into three streams – recoverable oil, waste fluids and solids – which are then treated further. Recoverable oil is treated at the company's emulsion treatment facilities, waste fluids are injected into CCS' deep wells for disposal and treated residual solids are disposed of at the company's landfill disposal sites or the cavern disposal facility.

Landfills (Solid Waste Disposal)

CCS owns and operates two landfills located near Slave Lake and Fox Creek, Alberta. The landfills are engineered and built to meet or exceed all requirements for Class II oilfield landfills and are licensed to receive oilfield waste containing non-dangerous levels of contaminants. All wastes are pre-treated and must meet our landfills stringent regulatory requirements prior to disposal. We continually monitor our landfills to assess any potential impact on the surrounding environment. The landfills have enhanced our service in our core areas by increasing the efficiency of our operations in northern Alberta.

Treatment and Disposal Revenue
($millions)



■ 12 months ended April 30
■ 12 months ended December 31

Revenue for the Treatment and Disposal division increased more than 30 percent in 1998 due to the addition of new facilities.

CAVERN DISPOSAL FACILITY (SOLID AND FLUID DISPOSAL)

In 1997 CCS commissioned a cavern disposal facility near Unity, Saskatchewan that offers our customers another efficient, economical, environmentally-compliant disposal option. Hydrocarbon waste is delivered to Unity where it is mixed with salt water from the cavern to form a slurry of hydrocarbons and brine. The slurry is then injected into the cavern 1,100 metres below the surface where a natural separation takes place. Solids settle to the bottom of the cavern and any residual hydrocarbon emulsions rise to the top for future recovery. The cavern offers the advantage of a chemical-free waste process capable of processing high volumes of material.

ADVANCED SYSTEMS

To properly track our customers' products as they move through our system, we have developed a state-of-the-art production accounting system, which ensures efficient tracking of our customers product through all stages of treatment and waste processing.

CONTINUOUS IMPROVEMENT

As environmental regulations have become more stringent, the demand for our services has increased, prompting us to continually improve and expand our facilities to meet the changing demands of our clients. In1997 we added the cavern disposal facility in Unity, Saskatchewan, and in1998 we added a second landfill licensed to receive waste containing non-dangerous levels of contaminants.

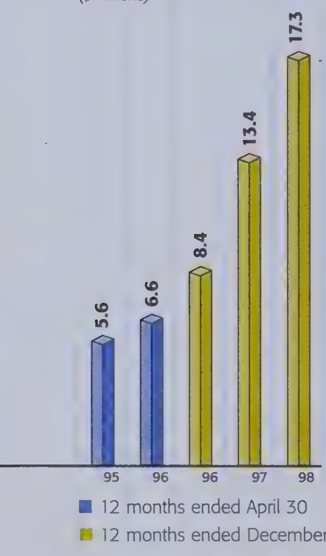
Also in the last year we have continued to improve our existing facilities, while adding two strategically located plants through acquisition. The two new facilities that we acquired in October 1998 are located in Alberta near Edson and Brazeau. These facilities are located in areas that have predominantly light oil and natural gas production and will contribute to our success in the future. The plants give us a strategic presence in one of the largest areas of oilfield activity in Canada.

OUTLOOK

We believe 1999 will be a flat year in terms of oil activity. We expect our northern plants to continue to perform well as they are located in areas with higher production volumes and lower operating costs. Our southern plants will continue to feel the impact of lower oil prices as they have more exposure to heavy oil and are located in more mature fields with relatively low production rates and higher operating costs. We plan to further optimize our operations in 1999 to operate in the most cost-efficient manner. The Treatment and Disposal division will continue to contribute in a positive way to the bottom line through 1999.

Concord Well Servicing Revenue

($millions)



The addition of seven new well servicing rigs in late 1997 was reflected in the 29 percent increase in Concord's 1998 revenue.

CONCORD WELL SERVICING DIVISION

Concord Well Servicing is a division of CCS headquartered in Valleyview, Alberta. Concord presently owns and operates 19 well service rigs that provide contract services for well completions, workovers, and downhole maintenance in northwestern Alberta and northeastern British Columbia. Concord offers recompletion and workover of existing wells (enhancement of production), as well as abandonment of wells, both oil and gas.

We provide these services through our 14 medium-sized double rigs, four mobile singles and one trailer-mounted heavy double rig. Additionally, Concord boasts an array of spare and rental equipment to ensure we can meet the needs of our clients. Concord's fleet has been remanufactured since 1991 and, combined with regular maintenance, experienced field personnel, and extensive safety training, contributes to a safe and efficient operation. Concord's

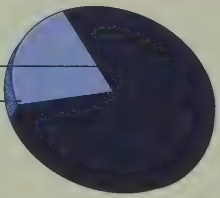
strength lies in our ability to establish close ties within the communities we serve. By establishing operating bases in close proximity to oilfield operations, we are able to dispatch crews from these local bases which translates into field-specific expertise for clients and higher retention of experienced workers.

In October 1998 Concord opened a new multi-purpose facility in Acheson Industrial Park near Edmonton. This facility will generate significant savings for us as we begin to perform our own equipment maintenance and overhaul work. The new facility contains an office and a 15,000 square foot shop capable of rebuilding, remanufacturing, and fabricating well service equipment. The facility is situated on a three acre site where there is ample room for rig-up and storage activities.

Concord has close ties with the Calgary office. A close working relationship with the Treatment and Disposal division has provided opportunities for strategic insights into the oil industry that have benefitted both divisions. Although both divisions operate within the oil industry, separate strategic initiatives have been developed to suit the strengths of each division. The two divisions have been able to combine insights into the market at an early stage which has helped both divisions capitalize on opportunities and identify and prepare for trends in the marketplace.

Market Share in Valleyview Operating Area

75%	Concord Well Servicing
25%	Other



In management's opinion, Concord enjoys a 75 percent market share in the Valleyview area due to the local ties with the community and the competitive advantages of being located close to customers.

Outlook

Regular oilfield production and workovers slowed during 1998 and are expected to remain slow throughout 1999. Natural gas activity has increased substantially in our operating area, and now results in 70 percent of our rig hours being devoted to gas wells. Natural gas drilling and production is expected to increase as pipeline capacity is increased.

Concord is well positioned to take advantage of opportunities in 1999. With a focus on gas, in management's opinion Concord will be able to maintain higher than industry average utilization rates due to strong customer relations and the geographic niche area within which we operate. While 1999 will be a challenging year, the Concord Well Servicing division will continue to contribute positively to the bottom line of CCS.

(From left to right (see photo opposite right))

Murray Montgomery
Vice President Finance, Chief Financial Officer and Corporate Secretary

Gordon Vivian
Vice President and General Manager, Concord Well Servicing Division

Don Babb
Vice President Operations, Treatment and Disposal Division

Robert Dodds
Executive Vice President and Chief Operating Officer

David Werklund
President, Chairman of the Board and Chief Executive Officer

Rene Amirault
Vice President Marketing

CCS EXPERIENCED ANOTHER YEAR OF STRONG RESULTS IN 1998 AND IS WELL POSITIONED TO DO SO AGAIN IN 1999 DUE TO STABLE MARKET SHARE AND A STRONG BALANCE SHEET, WHICH WILL ALLOW THE COMPANY TO CAPITALIZE ON GROWTH OPPORTUNITIES IN THE CURRENT LOW OIL PRICE ENVIRONMENT.

Management's Discussion and Analysis

Results of Operations

12 months ended December 31
($000s except per share amounts)

	1998	1997	Change %
Revenue	43,316	33,162	31
Operating margin	16,813	12,147	38
Cash flow from operations	10,238	7,852	30
Net income before gain on sale of assets	4,284	3,046	41
per share	0.35	0.34	3

CCS continued its record growth trend during the year ended December 31, 1998, recording a 41 percent increase in net income before gain on sale of assets and a 31 percent increase in revenue.

Overview

Canadian Crude Separators experienced another year of strong financial results in 1998. For the 12 months ended December 31, 1998, revenue increased by 31 percent to $43.3 million from $33.2 million in 1997. This increase resulted from an expansion of our existing operations, increased synergies among our operations and prudent management of our business. Revenue increased in both of our operating divisions, as the Treatment and Disposal division added several new facilities in 1997 and 1998, and the Concord Well Servicing division added seven service rigs in November 1997 and achieved a full year of operations from these assets in 1998.

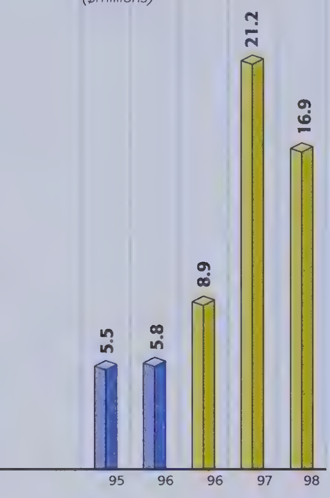
Operating expenses as a percentage of revenue decreased to 61.2 percent in 1998 from 63.4 percent in 1997. This decline contributed to an increase in operating margin as a percentage of revenue to 38.8 percent in 1998 from 36.6 percent in 1997. This reduction in operating costs and corresponding increase in operating margin was a result of management concentrating on the activities that yield the greatest return to CCS: improving synergies between our various operations, proactively improving the operations at our facilities and concentrating on reducing our operating costs.

Expenses

12 months ended December 31
($000s)

	1998	1997	Change %
General and administrative	3,928	2,738	43
Interest on debt	678	962	(30)
Future site restoration	333	60	455
Depreciation and amortization	3,837	2,504	53

Capital Expenditures
($millions)



CCS achieved all of its improved 1998 operating results even with a significantly lower capital expenditure program.

Net income also increased with the improvement in operating margin. Net income before gain on sale of assets increased by 41 percent to $4.3 million in 1998 from $3.0 million in 1997. In 1997 there was a large non-recurring gain of $1.8 million before tax ($1.1 million after tax) which resulted from the sale of two producing wells and other surplus equipment. However, even after including this large gain in 1997 results, net income after the gain on sale of assets still increased by four percent in 1998 to $4.3 million from $4.2 million in 1997.

Cash flow from operations before changes in working capital increased by 30 percent to $10.2 million in 1998 from $7.9 million in 1997. This increase indicates CCS continued to generate strong cash flow in 1998 as the company outperformed the industry by improving cash flow in 1998 despite lower oilfield activity levels for the industry as a whole in 1998 versus 1997.

Depreciation and amortization expenses increased to 8.9 percent of revenue in 1998 from 7.5 percent of revenue in 1997. This change primarily resulted from CCS prospectively altering the estimated useful lives of various capital assets in 1998 to more closely match the expected duration of these assets and an increase in our capital asset base. As well, general and administrative expenses increased to 9.1 percent of revenue in 1998 from 8.3 percent of revenue in 1997, primarily as a result of outside consulting and professional services provided during the year for a variety of issues. Interest expense on long-term and short-term debt decreased to 1.6 percent of revenue in 1998 from 2.9 percent of revenue in 1997, as average debt levels were lower in 1998 due to the special warrants financing in December 1997.

The issuance of special warrants in December 1997, which were converted into common shares in March 1998, increased the number of common shares outstanding to 13.4 million at December 31, 1998 from 9.5 million at December 31, 1997. This increase strengthened the capital structure of the company and allowed us to finance growth from equity. On a fully diluted earnings per share basis, net income before gain on sale of assets increased to 33.9 cents per share in 1998 from 29.4 cents per share in 1997. After including the non-recurring large gain on asset sales that occurred in 1997, net income was 34.1 cents per share in 1998 on a fully diluted basis compared to 40.2 cents per share in 1997.

The future site restoration provision increased to $333,000 in 1998 from $60,000 in 1997. During 1998 CCS identified specific site restoration activities required for an inactive plant. A portion of this work was completed in the fourth quarter of 1998 and was included in operating expenses in 1998, and a provision was included in future site restoration for the amounts that will be incurred in future years to complete all site restoration activities.

LIQUIDITY AND CAPITAL RESOURCES

In 1998 CCS' available long-term line of credit with a Canadian chartered bank increased to $20 million from $15 million, and the short-term operating line of credit increased to $12 million from $10 million. This increase was the result of CCS' growth and maturity as a company and provides additional flexibility and stability. CCS completed 1998 with a conservative debt to cash flow from operations ratio of 1.12, and a debt to equity ratio of 0.31.

Capital spending totalled $16.9 million in 1998. This amount included the acquisition of the two crude oil treatment and oilfield waste processing plants at Brazeau/Elk River and Edson, the construction of the Fox Creek landfill and the completion of the Slave Lake (Mitsue) landfill site. Capital spending was financed primarily with cash flow, with the balance being funded with long-term debt financing. At December 31, 1998 CCS had $8.5 million of financing available under the long-term debt facilities.

Environmental Regulation and Safety

CCS provides services to its customers in a highly regulated environment and strives to meet or exceed all regulatory standards and customer expectations. We are very committed to our environmental responsibility and conduct safe practices at all of our work locations. To support this goal, we implemented a Drug and Alcohol Policy and testing program throughout CCS. This program is firmly supported by senior management and employees throughout the company.

Risk Assessment

CCS operates in a competitive environment. These risks are minimized by the diversification between the Treatment and Disposal division and the Concord Well Servicing division, which provide different services and are complementary but are impacted by different market factors. The Treatment and Disposal division is well diversified geographically between light crude and heavy crude oil, with most of the operations relating to light crude oil. As well, the Concord Well Servicing division is located in a natural gas and light crude oil area, and is currently deriving the majority of its revenue from natural gas operations. This provides CCS with a good exposure to natural gas operations, which is a growth area with new natural gas pipeline expansion coming on stream. This positive exposure to natural gas would not be available to other competitor companies that engage in oilfield treatment and disposal operations without complementary operations such as well servicing that offers an exposure to natural gas.

Year 2000 Compliance

CCS has replaced its financial accounting and information systems for both the Treatment and Disposal division and the Concord Well Servicing division. These systems are represented by the manufacturer to be year 2000 compliant.

We have reviewed all of our computer hardware and software in our head office and field operations and it is management's opinion that there is no material exposure to the year 2000 issue.

We are also currently conducting a review, in conjunction with an outside consulting service, of all our field operations process control equipment to assess our year 2000 compliance. As part of this ongoing review, we are assessing where any potential risks of non-compliance may be. Where these potential risks exist, we will be working with the suppliers of the equipment to resolve these issues. We believe that the total cost of rendering our systems to be year 2000 compliant is unlikely to exceed $200,000.

We anticipate having our assessment completed in the second quarter of 1999 and expect by that time to have completed all the work required to ensure that we do not have any material exposure to the year 2000 issue. However, this will not be known for certain until after the completion of the entire assessment process.

1999 Business Outlook

In 1998 CCS achieved record results in terms of net income and cash flow. In addition, the company has a solid balance sheet, with conservative ratios of debt to cash flow and debt to equity. Our strategy for 1999 is to reduce our costs to ensure total cost leadership in our operations, and to pursue growth where it can generate high returns and still be within our conservative financial parameters.

We expect the oil services industry will face a challenging year in 1999. Commodity prices for crude oil are low in historic terms, and oil companies are reducing their capital expenditures

Shareholders' Equity

($millions)

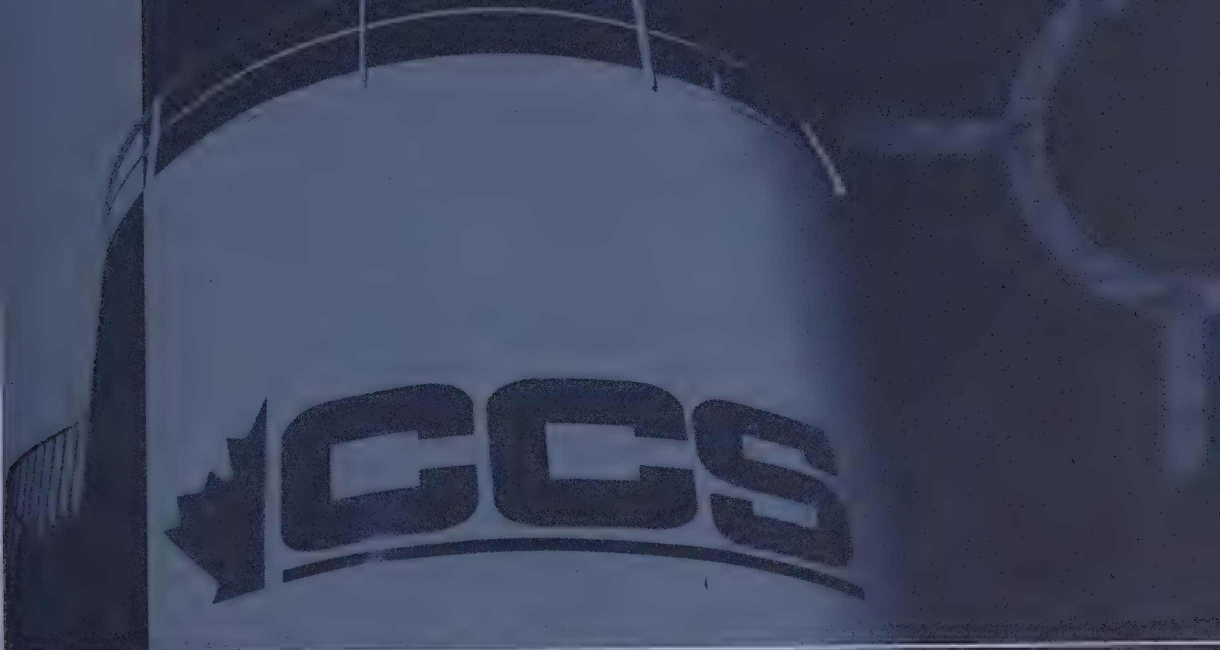
The company's strong, focused operations and steady returns have allowed CCS to deliver improved returns for its shareholders.

EBITDA per Share

On a per share basis, EBIDTA remained constant in 1998 even with a $16 million equity issue early in the year.

and drilling operations. However, natural gas drilling activity continues to be stronger than crude oil drilling activity. CCS is in a strong position as our Treatment and Disposal division is much more dependent on oil production, and less dependent on exploration or drilling operations, and is therefore less commodity price sensitive than the operations of other oilfield services companies. In addition, our primary exposure to heavy oil operations is through our three plants in Saskatchewan, which is a relatively small exposure in regard to our 15 facilities in total. The vast majority of our plant operations are located in light oil and natural gas areas. As well, our Concord Well Servicing division is currently weighted more towards natural gas operations. However, our service rigs have the flexibility to easily switch from natural gas to light crude oil activity as commodity prices fluctuate, as our service rig operations are located in geographic areas where both natural gas and light oil are predominant activities.

We are very optimistic about the future of CCS. We have a strong operational focus, a conservative balance sheet, dedicated and experienced employees and a strategic vision to carry us into the new millenium. The company will continue to grow and prosper in future years, and we eagerly look forward to many successful years of future operations.



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Management's Responsibility for Financial Reporting

The financial statements included in this annual report of Canadian Crude Separators Inc. for the year ended December 31,1998 are the responsibility of the management of the company and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Management has developed and maintains a comprehensive system of internal controls, which provide assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The independent chartered accounting firm of Ernst & Young has been appointed by the shareholders of the company to examine the financial statements and has expressed an opinion thereon. Their report is included with the financial statements. The Board of Directors has established an Audit Committee to review the financial statements with management and the auditors and has reported to the Board of Directors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

David P. Werklund
President, Chairman of the Board
and Chief Executive Officer

Murray W. Montgomery, C.A.
Vice President Finance,
Chief Financial Officer and
Corporate Secretary

March 10, 1999

Auditors' Report

To the Shareholders of Canadian Crude Separators Inc.

We have audited the consolidated balance sheets of Canadian Crude Separators Inc. as at December 31, 1998 and December 31, 1997 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and December 31, 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 10, 1999

Chartered Accountants

Consolidated Balance Sheets

As at December 31		1998		1997
ASSETS [notes 3 and 4]				
Current				
Accounts receivable	$	8,885,571	$	11,763,304
Due from affiliate [note 14]		57,567		24,373
Prepaid expenses		147,510		201,189
		9,090,648		11,988,866
Capital assets [note 2]		54,609,444		41,881,120
Investments		61,000		42,500
Shareholders loans [note 14]		1,070,640		–
	$	64,831,732	$	53,912,486
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Bank indebtedness [note 3]	$	2,022,392	$	4,601,753
Accounts payable and accrued liabilities		4,264,806		4,891,100
Income taxes payable		1,593,313		594,188
Current portion of long-term debt [note 4]		–		947,157
		7,880,511		11,034,198
Long-term debt [note 4]		11,500,000		6,000,000
Preferred shares [note 5]		1,147,018		1,147,018
Deferred income taxes		6,538,901		4,733,697
Future site restoration		746,966		413,966
Commitments and contingencies [notes 6, 13 and 16]				
Shareholders' equity				
Share capital [note 7]		24,819,416		7,414,668
Special warrants [note 8]		–		15,281,483
Contributed surplus		812,009		812,009
Retained earnings		11,386,911		7,075,447
		37,018,336		30,583,607
	$	64,831,732	$	53,912,486

See accompanying notes

Approved by the Board:

Director

Director

Consolidated Statements of Income and Retained Earnings

12 months ended December 31		1998		1997
REVENUE				
Treatment and Disposal division	$	26,046,085	$	19,791,169
Concord Well Servicing division		17,269,972		13,370,661
		43,316,057		33,161,830
Operating expenses		26,503,452		21,015,204
Operating margin		16,812,605		12,146,626
EXPENSES				
General and administrative		3,928,127		2,738,230
Interest on long-term debt		583,565		797,064
Interest on short-term debt		94,524		164,754
Interest on preferred shares		84,240		84,240
Future site restoration		333,000		60,000
Depreciation and amortization		3,837,149		2,503,651
		8,860,605		6,347,939
Income before the following		7,952,000		5,798,687
Gain on sale of assets [note 9]		48,754		1,773,997
Income before income taxes		8,000,754		7,572,684
Income taxes [note 11]				
Current		1,884,086		1,170,850
Deferred		1,805,204		2,242,627
		3,689,290		3,413,477
Net income for the year		4,311,464		4,159,207
Retained earnings, beginning of year		7,075,447		2,916,240
Retained earnings, end of year	$	11,386,911	$	7,075,447

See accompanying notes

Consolidated Statements of Cash Flow

12 months ended December 31		1998		1997
OPERATING ACTIVITIES				
Net income for the year	$	4,311,464	$	4,159,207
Add (deduct) non-cash items				
Depreciation and amortization		3,837,149		2,503,651
Future site restoration		333,000		60,000
Gain on sale of assets before tax		(48,754)		(1,773,997)
Current tax on sale of assets		–		660,897
Deferred income taxes		1,805,204		2,242,627
		10,238,063		7,852,385
Change in non-cash working capital balances [note 12]		2,180,025		(3,453,108)
		12,418,088		4,399,277
FINANCING ACTIVITIES				
Issuance of long-term debt		5,500,000		23,437,000
Long-term debt repayments		(947,157)		(26,560,106)
Issuance of share capital and warrants		2,123,265		16,878,100
Shareholders loans		(1,070,640)		–
		5,605,468		13,754,994
INVESTING ACTIVITIES				
Purchase of capital assets		(11,820,404)		(14,160,837)
Acquisitions [note 13]		(5,093,543)		(7,000,000)
Proceeds on disposal of capital assets		397,228		2,087,409
Current tax on sale of assets		–		(660,897)
Purchase of investments		(18,500)		–
Change in non-cash working capital balances [note 12]		1,091,024		246,267
		(15,444,195)		(19,488,058)
Decrease (increase) in bank indebtedness		2,579,361		(1,333,787)
Bank indebtedness, beginning of year		(4,601,753)		(3,267,966)
Bank indebtedness, end of year	$	(2,022,392)	$	(4,601,753)

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 1998

1. Summary of Significant Accounting Policies

The financial statements of the company have been prepared by management in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Principals of Consolidation

These financial statements include the accounts of Canadian Crude Separators Inc. and its subsidiary company.

Capital Assets

Capital assets are recorded at cost. Assets are amortized over their estimated useful lives at the following annual rates:

Process facilities	five percent declining balance
Cavern facility	units of total capacity used in a period
Service rigs	straight line over 15 years with 20 percent residual value
Mobile equipment	30 percent declining balance
Furniture & equipment	20 to 30 percent declining balance
Buildings	five percent declining balance

Investments

Investments are carried at cost. Writedowns occur where there has been an other than temporary decline in value.

Financial Instruments

The company has financial instruments consisting of due from affiliate, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, income taxes payable, long term debt, and preferred shares. The carrying value of these instruments approximates fair value unless otherwise stated.

Income Taxes

The company follows the deferral method of tax allocation under which the income tax provision is based on the income reported in the accounts. Under this method, the company makes full provision for income taxes which have been deferred principally as a result of claiming capital cost allowance in excess of that provided in the accounts and the recognition of investment tax credits.

Future Site Restoration

The company provides for future restoration on all its facilities based on a twenty year estimated useful life. Costs are estimated by company personnel based on a review of each facility, with appropriate consideration for industry standards and existing conditions and legislation. Costs are net of estimated salvage values. These costs are subject to measurement uncertainty and it is reasonably possible that changes in the above factors could require a change in the recognized amount.

2. Capital Assets

			Cost		Accumulated Depreciation and Amortization		Net Book Value
December 31, 1998							
	Process, cavern and landfill facilities	$	39,656,192	$	6,000,768	$	33,655,424
	Service rigs		17,146,084		3,141,173		14,004,911
	Mobile equipment		2,336,109		1,166,120		1,169,989
	Furniture and equipment		2,208,259		721,337		1,486,922
	Buildings		4,464,954		630,405		3,834,549
	Land		457,649		–		457,649
		$	66,269,247	$	11,659,803	$	54,609,444

			Cost		Accumulated Depreciation and Amortization		Net Book Value
December 31, 1997							
	Process and cavern facilities	$	28,463,599	$	4,199,021	$	24,264,578
	Service rigs		15,347,498		1,992,995		13,354,503
	Mobile equipment		1,882,333		791,574		1,090,759
	Furniture and equipment		842,858		369,574		473,284
	Buildings		2,786,032		535,685		2,250,347
	Land		447,649		–		447,649
		$	49,769,969	$	7,888,849	$	41,881,120

Service rig amortization was changed prospectively in 1998 to better reflect the economic useful life of the rigs. Service rigs were amortized from 6.25 percent to 12.5 percent on a straight line basis prior to 1998. This change in rates reduced amortization by approximately $300,000 in the current year.

3. Bank Indebtedness

The demand operating line bears interest at bank prime or at the bankers acceptance rate plus 0.85 percent, at the company's option. A general assignment of book debts, assignment of insurance on processing facilities, fixed charge on all major assets, and a floating charge over all the assets of the company have been pledged as collateral. At December 31, 1998, $2 million of an available $12 million operating line had been utilized.

4. Long-Term Debt

		1998		1997
Bank loan bearing interest, at bank prime or at bankers acceptance rate plus 0.85 percent, at the company's option. The average effective rate during 1998 was 6.6 percent (1997 - 5.5 percent). The loan facility is a revolving loan which is reviewed annually and notwithstanding this, the loan has been shown as being fully repayable January 1, 2000. The facility can be extended or converted to a term loan at the option of the bank. A general assignment of book debts, assignment of insurance on processing facilities, fixed charge on all major assets and a floating charge over all the assets of the company have been pledged as collateral for the bank loan	$	**11,500,000**	$	6,000,000
Other		–		947,157
		11,500,000		6,947,157
Current portion		–		947,157
	$	**11,500,000**	$	6,000,000

5. Preferred Shares

Authorized

Unlimited number of preferred shares, issuable in series

Issued

		Shares		Amount
Preferred shares, Series A				
	Issued for oilfield equipment	98,000	$	294,000
	Issued on conversion of debt (net of costs)	292,000		853,018
	December 31, 1998 and 1997	390,000	$	1,147,018

The Series A preferred shares are redeemable, retractable, bear a fixed cumulative dividend of $0.216 per share per annum and are convertible to common shares on the basis of one common share for each preferred share. As the holder of the preferred shares has signed a letter of intent to not redeem the shares until after January 1, 2000 the preferred shares have been presented as a long-term liability.

6. Contingency

The company is involved in a number of legal disputes in the ordinary course of business, none of which are expected to result in any material loss to the company.

7. Share Capital

Authorized

Unlimited number of common shares

Issued

		Shares		Amount
Common shares				
	December 31, 1996	8,985,626	$	5,790,828
	Issued on exercise of options	530,780		1,592,340
	Issued for debt repayment	15,000		31,500
	December 31, 1997	9,531,406		7,414,668
	Conversion of special warrants [note 8]	3,049,880		15,281,483
	Issued on exercise of options	466,393		1,390,845
	Issued on purchase of treating and waste plants [note 13]	311,668		732,420
	December 31, 1998	13,359,347	$	24,819,416

Options

The following options for the acquisition of common shares are outstanding at December 31, 1998:

Number	Exercise Price per Share	Expiration Date
155,000	$2.00	February 8, 2002
60,000	$5.10	September 5, 2002
20,000	$5.25	February 12, 2003
75,000	$5.25	January 22, 2003
25,000	$3.70	July 13, 2003
50,000	$3.70	August 4, 2003

8. Special Warrants

On December 4, 1997, the company issued 3,049,880 special warrants for $16,011,870 less $730,387 issue costs, net of taxes. Each warrant entitled the holder to acquire at no additional cost, one common share. The special warrants were all exercised on March 5, 1998.

9. GAIN ON SALE OF ASSETS

During the year ended December 31, 1997, the company realized a gain of $1,773,997 before tax, primarily on the sale of its two producing oil wells.

10. EARNINGS PER SHARE

Earnings per share are calculated based on the weighted average number of shares outstanding for the year. For purposes of the calculations, the weighted average number of shares outstanding for the year ended December 31, 1998 was 12,379,917 (1997 - 9,081,669). Basic earnings per share for the year ended December 31, 1998 is $0.348 (1997 - $0.458). Fully diluted earnings per share for the year ended December 31, 1998 is $0.341 (1997 - $0.402).

11. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rates for each of the years due to the following differences:

	1998	1997
Corporate tax rate	44.6%	44.6%
Provision for income taxes at statutory tax rate	$ 3,568,336	$ 3,377,417
Increase (decrease) in income taxes due to:		
Large corporations tax	66,000	39,000
Expenses not deductible for tax purposes	66,000	—
Other	(11,046)	(2,940)
	$ 3,689,290	$ 3,413,477

12. CHANGE IN NON-CASH WORKING CAPITAL BALANCES

Changes in non-cash working capital balances are comprised of the following:

	1998	1997
Accounts receivable	$ 2,877,733	$ (5,694,172)
Due from affiliate	(33,194)	33,805
Prepaid expenses	53,679	146,110
Accounts payable and accrued liabilities	(626,294)	1,745,660
Income taxes payable	999,125	561,756
	3,271,049	(3,206,841)
Comprised of:		
Operating	2,180,025	(3,453,108)
Investing	1,091,024	246,267
	$ 3,271,049	$ (3,206,841)

13. ACQUISITIONS

On October 1, 1998, the company purchased two treating and waste plants and accounted for the acquisition by the purchase method. The purchase price was allocated as follows:

Land	$ 10,000
Facilities and equipment	5,083,543
	5,093,543
Consideration consisted of the following:	
Cash	4,011,123
Issuance of 311,668 common shares	732,420
Other non-cash consideration provided	350,000
	$ 5,093,543

The company agreed to make an additional cash payment to the vendor on October 1, 2000 if the weighted average trading price of the company's shares during the preceding thirty days is less than $6.00 per share for any shares issued and outstanding pursuant to the acquisition. In the event that an additional cash payment is required, a corresponding increase in the value of the facilities and equipment would occur. All operations personnel previously employed by the vendor continued their employment with the company.

On November 1, 1997, the company acquired seven service rigs and related spare equipment from a private company for cash consideration of $7,000,000. All operations personnel and rig crews previously employed by the vendor continued their employment with the company.

14. Related Party Transactions

The amount due from an affiliated company, Werklund Enterprises Ltd. (Werklund), a company owned by the majority shareholder of Canadian Crude Separators Inc., is non-interest bearing and due on demand.

During the year Werklund charged fees to the company of $33,194 (1997 - $56,873) for the use of premises and equipment. In 1997, the company acquired certain equipment from Werklund at a cost of $162,325. These transactions are based on the fair value of services provided or assets exchanged.

Shareholders loans are non-interest bearing and are repayable on June 17, 2000. The shareholders have pledged 350,000 shares as collateral for the loan.

15. Major customers and Segmented Information

The company's sales are to customers in the oil and gas industry for the providing of environmental solutions for waste management, along with providing contract oilfield services. This results in a concentration of credit risk. The company generally extends unsecured credit to these customers, and therefore, the collection of these receivables may be affected by changes in the economic or other conditions and may accordingly impact the company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. The company has not previously experienced any material credit losses on the collection of receivables.

There were no individual sales to customers representing 10 percent or more of total revenue in 1998 and 1997.

At December 31, 1998 and 1997, there were no customers who individually had accounts receivable balances greater than 10 percent of the total accounts receivable.

The following table provides information by operating segment as at and for the year ended December 31, 1998 and 1997. The operating segments consist of treatment and disposal of oil waste products, and well servicing. All of its revenues and income are derived in Canada.

1998	Treatment and Disposal	Concord Well Servicing	Total
Revenue	$ 26,046,085	$ 17,269,972	$ 43,316,057
Operating expenses	13,421,387	13,082,065	26,503,452
Operating margin	12,624,698	4,187,907	16,812,605
General and administrative costs	3,673,834	254,293	3,928,127
Interest expense	458,391	303,938	762,329
Future site restoration	333,000	—	333,000
Depreciation and amortization	2,234,947	1,602,202	3,837,149
Income before the following	5,924,526	2,027,474	7,952,000
Gain on sale of assets	12,263	36,491	48,754
Income taxes	2,748,654	940,636	3,689,290
Net income for the year	3,188,135	1,123,329	4,311,464
Capital asset expenditures	$ 12,680,468	$ 4,233,479	$ 16,913,947

1997		Treatment and Disposal		Concord Well Servicing		Total
Revenue	$	19,791,169	$	13,370,661	$	33,161,830
Operating expenses		11,346,684		9,668,520		21,015,204
Operating margin		8,444,485		3,702,141		12,146,626
General and administrative costs		2,448,887		289,343		2,738,230
Interest expense		624,293		421,765		1,046,058
Future site restoration		60,000		—		60,000
Depreciation and amortization		1,437,802		1,065,849		2,503,651
Income before the following		3,873,503		1,925,184		5,798,687
Gain on sale of assets		1,773,997		—		1,773,997
Income taxes		2,541,375		872,102		3,413,477
Net income for the year		3,106,125		1,053,082		4,159,207
Capital asset expenditures	$	13,613,204	$	7,547,633	$	21,160,837

16. SUBSEQUENT EVENTS

On January 4, 1999 the company issued 250,000 options to members of the senior management team, exerciseable at $1.94 per share and expiring January 4, 2004.

On February 2, 1999 a statement of claim totalling $22 million was filed against the company by a competitor claiming the company used the competitor's proprietary technology. At the present stage of legal proceedings, legal counsel is unable to provide a legal opinion with respect to the outcome of this action. However, it is the opinion of the company's management that the claim is without merit.

17. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on Canadian Crude Separators Inc. As at December 31, 1998, the company has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties such as customers, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Five-Year Review of Operations

($000s except per share amounts)	12 months ended December 31 1998	1997	1996 (unaudited)	12 months ended April 30 1996	1995	1994
REVENUE	**43,316**	33,162	23,272	20,165	17,910	12,622
EXPENSES						
Operating	**26,503**	21,015	16,585	13,502	11,659	7,526
General and administrative	**3,928**	2,738	2,122	1,723	1,551	1,066
Depreciation and amortization	**3,837**	2,504	1,763	1,441	897	699
Interest on debt	**678**	962	463	690	651	567
Net income (loss)	**4,311**	4,159	(697)	60	144	1,660
per share (basic)	**0.35**	0.46	(0.08)	0.01	0.02	0.19
Cash flow from operations	**10,238**	7,852	4,018	3,735	3,790	3,500
per share (basic)	**0.83**	0.86	0.45	0.42	0.43	0.42
Capital expenditures	**16,914**	21,161	8,874	5,813	5,456	5,684
Long-term debt	**11,500**	6,947	10,070	7,217	6,374	5,401
Common shareholders' equity	**37,018**	30,584	9,519	8,892	8,819	8,344

Corporate Information

Board of Directors

David P. Werklund
President, Chairman of the Board and Chief Executive Officer
Calgary, Alberta

Mr. Werklund is the founder, Chief Executive Officer and President of Canadian Crude Separators Inc. He founded the company in 1984 after working in the oilfield industry for more than two decades.

Robert W. Sparrow
Director, Chairman of the Human Resources Committee
Calgary, Alberta

Mr. Sparrow has been a private businessman since 1959. He was the founder and President of Sparrow Electric Ltd. out of Nisku /Leduc until 1978. He is the Provincial Chairperson of the Board for Persons with Developmental Disabilities for the Alberta Government, with an operating budget of $280 million.

Brian J. Evans
Director, Chairman of the Environmental, Health and Safety Committee
Calgary, Alberta

Mr. Evans has been a partner at Miller Thomson since July 1997. In 1989 Mr. Evans was elected as a Member of the Legislature of Alberta. In 1992 he joined the Alberta Cabinet serving as Minister of Environmental Protection from 1992 to 1994, and Minister of Justice and Attorney General from 1994 to 1997. Mr. Evans is also a member of the Board of Directors for several not-for-profit organizations.

Ronald A. Begg
Director, Chairman of the Audit Committee
Toronto, Ontario

Mr. Begg has been the President of Working Ventures Canadian Fund Inc., one of Canada's largest venture capital funds with $700 million in assets, since January 1989. He is also President of the Canadian Venture Capital Association.

J. Sherrold Moore
Director, Chairman of the Nominating and Corporate Governance Committee
Calgary, Alberta

Mr. Moore has been a private oil and gas industry consultant since 1994. Prior thereto, he was a Senior Vice President of Amoco Canada. Mr. Moore is a member of the Board of Directors of several public and private corporations and community organizations.

Corporate Information

Officers

David P. Werklund
President, Chairman of the Board and Chief Executive Officer

Robert G. Dodds
Executive Vice President and Chief Operating Officer

Murray W. Montgomery, C.A.
Vice President Finance, Chief Financial Officer and Corporate Secretary

Senior Management

Rene E. Amirault
Vice President Marketing

Donald P. Babb
Vice President Operations

Gordon N. Vivian
Vice President and General Manager, Concord Well Servicing

Head Office

1400, 815 - 8th Avenue S.W.
Calgary, Alberta T2P 3P2
Phone: (403) 233-7565
Fax: (403) 261-5612

Website: www.cdncrude.com

Bankers

Toronto Dominion Bank
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar and Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Symbol – CCR

Investor Relations

Murray W. Montgomery
Direct Line: (403) 231-1103
Fax: (403) 261-5612

Notice of Annual Meeting

The annual meeting of shareholders will be held at 3:00 p.m. on Thursday, May 6, 1999 in the Viking Room of the Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta.

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Canadian Crude Separators Inc.

1400, 815 - 8th Avenue S.W.
Calgary, Alberta T2P 3P2